

# HKEX INVESTMENT (UK) LIMITED

## UK TAX STRATEGY

### Introduction

This document, approved by the Boards of the respective LME Group entities, is to communicate our approach to conducting our tax affairs in accordance with the requirements of paragraph 16(2) of Schedule 19 of the Finance Act 2016 and relates to the financial year ended 31 December 2019.

This tax strategy applies to the London Metal Exchange and its UK affiliates (the LME Group) which consists of four subsidiaries of the ultimate parent company, Hong Kong Exchanges and Clearing Limited (HKEX). Two subsidiaries are trading entities comprising; a metal exchange (The London Metal Exchange) and a clearing house (LME Clear Limited) and the remaining two are holding companies, LME Holdings Limited and HKEX Investment (UK) Limited.

### Our approach to governance arrangements in relation to taxation

The LME Group is committed to high standards of corporate governance. We recognise that good governance is pivotal in the business delivering its strategy whilst generating sustainable shareholder value and meeting our obligations to market participants.

As an essential part of this commitment, we operate within a well-defined governance structure (including a code of conduct) and embed governance principles and practices in the business, which have been established upon the four cornerstones of accountability, transparency, fairness and integrity.

Our attitude to tax risk management is aligned to the wider business strategic objectives and the LME Code of Conduct which reinforces key LME values and beliefs that all employees and associated third parties maintain high standards of integrity, transparency and collaboration. We work with all stakeholders in a structured and transparent way to ensure an appropriate tax risk management approach.

Our exchange and clearing businesses are regulated in the UK by the FCA, the Bank of England and under European Market Infrastructure Regulation respectively. All key business risks, of which tax is one, are embedded in our wider Enterprise Risk Framework. Ultimately tax governance is the responsibility of the UK Boards of the LME Group with the day to day management delegated to the UK Finance team and for certain items HKEX Finance and HR teams (employee taxes).

In line with our Group Risk Management Policy we operate a three lines of defence model in the UK and the business has in place processes to identify, assess, report and respond to risks. We follow this approach in managing and mitigating current and future tax risks. Tax risk is considered as part of our UK governance model and is documented in our tax risk register. Any material tax risks are reviewed by the Executive Committee, Audit Committee and Audit and Risk Committee and reported to the relevant UK Board as part of our Enterprise Risk Framework.

### **Our approach to the management of tax risk**

The LME Group manages its tax risk in a similar way to any area of operational risk across the group. Risk management is embedded into the culture and day to day operations as outlined in the group risk appetite statement where tax risk forms part of legal, compliance and operational risks (including financial risks).

The LME Group is also subject to the Senior Accounting Officer regime and has undertaken a risk based assessment to ensure that appropriate tax accounting arrangements are in place. All tax returns and other submissions to HMRC are subject to rigorous review and validation.

Where appropriate we use independent external advisors to provide specialist support for matters which may impact our tax filing obligations. We seek to use HMRC approved arrangements to achieve certainty and facilitate tax risk management.

The key risks and controls for the LME Group in the UK are highlighted below:

- **Compliance and Reporting Risk**

As with any business, the LME Group has the risk that tax returns will not be submitted on time or be in some way inaccurate. In order to mitigate this risk the LME Group has robust financial and operational systems and internal controls to support tax reporting compliance. In addition, the LME Group uses external advisors to advise on or prepare UK tax filings.

- **Transaction Risk/Business Change Risk**

In line with our governance model a detailed risk assessment is undertaken for all material business changes (i.e. potential acquisitions and business changes). As part of this process, tax risk is assessed by external tax advisors and/or management, to ensure that any tax risk is fully understood and accepted as appropriate.

- **Legislative Change Risk**

Legislative and regulatory changes pose risks to our business and market participants. To ensure these risks are mitigated from a tax perspective we receive regular updates from our tax advisors and attend industry webcasts and seminars.

## **Tax risk appetite**

The group risk appetite statement sets out the key business risks and ownership structure across the 3 lines of defence, which ensure accountability for identifying, assessing, reporting on and responding to opportunities and threats to the LME Group's Strategic Objectives.

The risk appetite statement is owned by the respective Boards and overseen by the Executive Committees. While tax risks are minimised as far as possible, in certain areas, the subjective nature of the relevant tax rules means that it is not possible to completely mitigate all risks.

## **Our approach towards tax planning**

Although the UK group seeks to be effective and efficient in its tax planning, including taking advantage of any legitimate tax incentives (i.e. R&D Tax Credit), we are conservative in our overall approach and only undertake planning in the context of the legitimate wider business and commercial activity of the LME Group. Where planning is undertaken, we consult with external tax advisors to ensure that the tax technical interpretation is fully aligned with the relevant tax legislation.

The LME Group does not tolerate tax evasion in any form, nor does it tolerate the facilitation of tax evasion by any person(s) associated with or acting on the LME Group's behalf. The LME Group has no appetite to engage with those that seek to avoid tax. The LME Group operates in a highly regulated environment and its tax policy is tailored for its business with a view to complying with the rules and regulations of the jurisdictions in which the LME Group operates. The LME Group maintains a simple and transparent legal entity structure and the LME Group has not, and will not, engage in aggressive tax avoidance schemes.

## **Our approach towards our dealings with HMRC**

We endeavour to maintain an open, transparent and collaborative approach to our dealings with all tax authorities and work proactively to resolve issues or disagreements should they arise. In the event that we identify any issue in our tax compliance obligations, we would voluntarily disclose this to HMRC on a timely basis.

The LME Group is committed to paying the appropriate amount of tax in full compliance with all applicable tax legislation.